The Auto Industry and the Search for Peace

Facts the Newspapers Dare Not Print From the New Kefauver Monopoly Report on General Motors

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In Detroit Adam Smith Has Been Revised by Lewis Carroll

When Senator Kefauver a few years ago proceeded to expose some of the hoodlums who prey on the fringes of our society, TV and the press made him the hero of a latter day saga. When he turned his attention to major rackets, to the uneconomic practices that affect not beer and slot machines but steel and automobiles, a blanket of silence descended upon the inquiry. The American economy pivots on the automobile; its prospective sales are the best index of business activity; the price of cars, their financing, the level of trade-in values, are prime topics in every American home. Yet when Kefauver as chairman of the Senate Judiciary subcommittee on monopoly a few days ago released a 300-page report on its investigation of the automotive industry,* the first of its kind in 20 years, it briefly hit the front pages of the better newspapers and was quickly buried. Coverage was superficial; comment almost non-existent. No TV cameras were trained on the intrepid Senator from Tennessee as he explained how the American consumer was being bilked by the longest, flashiest and silliest cars in our history.

A Portrait of Our Odd Folkways

The auto report, largely the work of the subcommittee's chief economist, Dr. John Blair, is more than an economic analysis. It is a portrait of our society. It will be a joy to the anthropologist with a sense of humor; no primitive tribe exhibits odder folkways. The intricately planned irrationality and calculated wastefulness of our leading industry is here laid bare for the social psychiatrist. In it are the keys to our future, our hopes for orderly social evolution in America and for peace. The main producers are now terribly dependent on the arms race; General Motors remains a top arms contractor, though demand has shifted from tanks and planes to rockets and missiles. The possibility of maintaining prosperity without a rising level of armament and world tension depends on the rational reorganization of this and other industries. The task might seem insuperable were it not that one of our biggest unions, the Auto Workers, has a stake in the struggle, an interest in regularizing employment. Its president, Walter Reuther, perhaps the last major labor figure who retains a social vision, did much to spark this inquiry.

The scanty newspaper coverage contrasts with the juicy findings. Were candid discussion of automotive mysteries not *tabu*, the report would have an audience of *Reader's Digest* dimensions. There is, first of all, the success story. Since 1921, General Motors—the world's largest corporation—has never failed to stay in the black, even in 1932 when volume dropped from 2,000,000 to 500,000 cars. In the past ten years, 1948-57, GM made an average annual return, *after taxes*, on its stockholders' investment of 25 percent a year. The American Institute of Management pointed out that at the 1955 rate of profit, GM's net, after interest and income taxes, was "sufficient to recoup the company's entire net plant investment in two years." In any ordinary business, this would seem sheer witchcraft.

Labor's Stake in Curbing the Monopoly

"Our appearance here, Mr. Chairman, is the culmination of 2½ years of continuous efforts on the part of our organization to get the U. S. Congress to take a good look at the wage-price-profit equation in the automotive industry and especially on the part of the Big Three . . . We believe that the impact of their administered prices, the fact that they can in the exercise of their monopoly position set aside the laws of supply and demand and rig their prices . . . short-change American consumers, farmers and workers . . . We believe that investigation into the destructive impact of administered prices in America's basic industries, auto, steel, petroleum and other critical industries relates very directly to the source of the developing imbalance in the American economy . . .

"They said to me as the spokesman of our union, 'Why in the hell don't you quit trying to act like a labor statesman? Why don't you just come in here and say, Give us ours and the public be damned.' Why are you worried about higher prices? That is not your business.' And I said, 'It is everybody's business. What happens to the price structure of America is the key to our economic future . . . We do not want higher wages out of higher prices. We want higher wages out of the fruits of our advancing technology'."

—Walter Reuther, president the Auto Workers Union, to the Kefauver monopoly committee, Jan. 28, 1958.

Race-Track Profit Rates

This profit record reflects GM's dominance of the industry. From 20 percent of new car registrations in 1925, GM's share rose to 50 percent in the first quarter of this year. Except for aluminum, automobiles are now our most concentrated industry. In 1915 there were 75 auto firms. Now the Big Three—GM, Ford and Chrysler—account for a shade better than 90 percent of all sales. The remaining 9.6 percent is divided by two surviving small domestic firms, American Motors and Studebaker-Packard, with a large variety of foreign imports. GM uses its position to fix prices at a level of output low enough to ensure 20 percent after taxes on net worth in poor years, and a bonanza in good. This means a

(*Continued on Page Two*)

*** It may be purchased for $1 from the Superintendent of Documents, Washington, D. C., as Administered Prices: Automobiles, A Report Pursuant to S. Res. 231, 85th Congress, 2d Session.**

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GM Runs the Automobile Industry for duPont Like A Private Soviet . . .

steady increase in the rate of profit to compensate for the steady increase in taxes, which GM passes on. "The rates of return in 1929 and in 1950 after taxes," the report explains, "were comparable—36.2 and 37.5 percent respectively." But in 1929, with low taxes, a before-tax earnings rate of 38.5 percent was enough to provide 36.2 percent after taxes. "In 1950, on the other hand," the report notes, "the company had to make a profit equal to 77.4 percent of its average stockholders' investment in order to earn 37.5 percent after taxes."

Raising Prices to Compete!

Such rates of return are supposed, by classical economic theory, to be associated with the most speculative of enterprises. The automobile industry in no way resembles the idealized image of capitalism, in which profit rises with risk and price falls with competition. The reality disclosed by this report is Adam Smith as revised by Lewis Carroll. An incident in the Fall of 1956 will illustrate. On September 29 of that year, Ford announced its prices on 1957 models. They showed an average increase of only 2.9 percent which a Ford spokesman said was "no more than our actual costs for materials and labor have gone up." Two weeks later, on October 13, GM announced its prices on Chevrolet, which competes with the Ford. GM's prices embodied an average rise of 6.1 percent. Thereupon a week later, Ford revised its prices upward to the Chevrolet level. This, as Mr. Reuther told the Kefauver committee, was "the first time in the history of a free enterprise where a company raised the price of their products in order to be competitive." When Senator Kefauver questioned a Ford vice-president, Theodore O. Yntema, about this, a positively *fey* colloquy occurred, of which this is a sample:

Senator Kefauver: If you had kept your prices lower, might not Chevrolet have come down to meet yours?

Mr. Yntema: Conceivably it would have happened.

Senator Kefauver: If you had kept yours lower, would you not have gotten more sales, more business?

Mr. Yntema: Probably some more.

A candid answer would have invited anti-trust prosecution. A handful of men at the top of GM determine prices and the others follow the leader—or else. GM's notion of free enterprise is strikingly like Krushchev's; it consists of decentralizing administration under central planning and control. As Alfred P. Sloan explained it in 1923 after these basic policies had been put into effect, "Decentralization was analogous to free enterprise. Centralization to regimentation. All, of course, within the area of General Motors. We decided for free enterprise." Within this area, Ford and Chrysler are allowed the same kind of freedom as GM's own Buick or Oldsmobile, but not much more.

In that same 1923 statement of policy, Mr. Sloan said that not to decentralize operations "would mean an autocracy, which is just as dangerous in a great industrial organization

As Changeable as Women's Hats

Mr. [George] Romney [president of American Motors, one of the last surviving independents]. They [the Big Three] introduced wraparound windshields that do not significantly improve vision and made them a hallmark of modern design. A small company could not have made the wraparound windshield a successful thing because when you get right down to the guts of it, it has no basic advantages over the straight windshield, and yet through advertising and promotion you can make an item of that type become absolutely the hallmark of a modern car, if you have got a large enough percentage of the total market to do it . . .

The automobile business really has some aspects about it that make it similar to three businesses. One is the millinery business where fashion is such a big part of it, and the other is the perishable product business because you have got to move the cars pretty fast or they lose their value . . .

Now, Senator, in this millinery aspect, in the fashion aspect, a company doing 40 to 50 percent of the business can make an aspect of car appearance a necessary earmark of product acceptance by the public just as a hat manufacturer—a woman's hat manufacturer—who sold 50 percent of the hats would have a much easier time of making all other hat manufacturers put cherries on their hats if the cherries were decided by it to be the fashion note of the year."

—Kefauver Auto Monopoly Report.

The Horsepower Race and A Good Joke on the Car-Buying Public

"Second only to the annual model change in importance in the field of style has been the horsepower race . . . the lowest priced 1958 models actually exceed in horsepower the Cadillacs, Lincolns and Chryslers of 1950 . . .

"To contain such large power plants, the cars themselves are larger in size and heavier, as are the essential automotive parts. The added cost of increased size is not, however, limited to the original purchase price. Nearly all such cars require premium fuel or they will knock considerably. In addition, overall mileage seldom exceeds 12 or 13 miles per gallon.

"Larger tires are required. On top of this, repair bills for even minor breakdowns tend to run high, not only for parts replacement but for the skilled labor necessary for such complex mechanisms . . . The horsepower race is one of the major factors responsible for the present high price structure in the automobile industry and the low sales record for 1958.

"Of course, it is not clear that the automobile buyers were able to determine how much of what they regarded as increased power and acceleration was in fact traceable to greater horsepower. Chrysler, for example, was disturbed by what it felt to be a common belief that other cars had a faster pickup than the Chrysler line, which Chrysler engineers said was simply untrue.

"Given the problem, a market research expert reasoned that the public could not know how good an automobile's acceleration was; few people can judge the speed at which they are travelling, let alone the rate of increase in speed. Interviewers were sent out to ask car owners whether they thought their car had fast acceleration or not, and when the results were in, the tension of the spring under the accelerator pedal in each make of automobile was measured. It was found that (quoting from Martin Mayer's book Madison Avenue, U. S. A.), '. . . wherever the accelerator spring was tight . . . people thought the car had slow acceleration; wherever the spring was loose, people thought the chariot was blessed with get-up-and-go. Chrysler loosened the springs under the pedals'."

—Kefauver Auto Monopoly Report.

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. . . The Horsepower Race and Style Razzle-Dazzle Waste Capital Goods

as it is in a government." Despite this unctuous disclaimer, Detroit dances to GM's tune. The lesser companies must disport themselves within price and sales policies fashioned to suit GM's convenience; they do not do as well but the bigger ones do not too badly. Ford's average annual return after taxes on stockholder investment from 1954 through 1957 exceeded 16 percent, less than GM's 25 percent, but half again as much as the average rate of return for all U. S. manufacturing corporations in the same period, which was only 11 percent. The prices set by GM insulate it from the fierce winds of the free market, giving GM all the benefits of a planned economy in an otherwise competitive capitalist world. Automotive Detroit sometimes appears to be a private Soviet governed by General Motors, which in turn is responsive to its major owner, the du Pont family. This occupies a position in our society much like that of the great Zaibatsu family monopolies now reviving in Japan.

How Sharply Profits Per Car Have Risen

"Over the 4 years [1954-57], General Motors' unit profits were on the average $358 before taxes, with an average annual volume of 3.6 million vehicles. In 1957 the unit profits were $312, with a volume of 3.2 million. It is interesting to compare these figures with the data reported by the Federal Trade Commission in 1939. The years 1935-37 were highly successful years for General Motors in terms of the rate of return on stockholders' investment. Yet the realized profit per car and truck sold in those years averaged only $45, according to the Federal Trade Commission. While there is no certainty that the average shown is exactly comparable to the 1954-57 data reported by General Motors, it is hard to escape the conclusion that prices and unit profits have risen much more rapidly than unit costs in the past two decades."

—Kefauver Auto Monopoly Report.

Not That Nutty

The general policy imposed by this lordly group on our major consumer durable is best summed up in a lovely word coined by Mr. Harlow H. Curtice, president of GM to describe the bewildering chrome-plated, space ship finned, razzle dazzle of new almost annual models. The word Mr. Curtice used in his appearance before the Kefauver committee was "fancification." In defending perpetual style changes, the GM president said "I would say that the application of fancification to our automobiles is the result of the demand on the part of the public." The phrase is vivid but the proposition is dubious.

Where the elder Ford tried to develop a solid car within average means and great foreign producers like Rolls Royce developed a finely tooled staple product which does not change basically year in or out, Detroit's mad drive under GM direction is to make cars flashier. Expert testimony showed that car quality was going down; confidential surveys of dealers afraid to speak publicly showed their belief (as one expressed it) that "John Q. Public is no longer standing in line to purchase an overpowered beast with a maze of electronic gadgets at a price his father paid for a home." Not the public but GM advertising has developed the taste for gadgetry. In the drive to sell bigger and therefore more profitable cars, requiring higher test gasoline (in which the du Ponts have an interest), Detroit has developed a new race of advertising yogis, dervishes and *gurus,* mobilized not to sell transportation but to minister to hidden sickness in our souls curable by the purchase of gaudier fantasies. "Depth techniques" are being used in selling cars. Ad copy grows as mystical as the Upanishads. The appeal to snobbery and irrationality, to compensatory dreams in two tone paint, has

How GM As Our No. 1 Arms Contractor Takes Uncle Sam for A (Cost Plus) Ride

"Another source of General Motors strength has been its receipt of defense contracts, both for production and for research and development. During World War II and during most of the subsequent period it has maintained its position as the Nation's No. 1 recipient of prime contract awards.

"It is accepted public policy that corporations engaged in defense work should enjoy no more than moderate profits . . . The difficulty is that there is little real check upon the effective operation of this public policy . . . [except] the occasional check upon a particular contract subjected to scrutiny by the legislative branch.

"Two such instances have involved General Motors Corp. In the summer of 1957, the Special Investigation Subcommittee of the House Armed Services Committee conducted hearings on an airplane contract negotiated with Buick-Oldsmobile-Pontiac Assembly division of GM. This contract with the Air Force in 1952 involved the manufacture of 599 airplanes, plus related spare parts. It was a negotiated fixed-price contract with a price-redetermination clause . . .

"The rate of profit agreed upon was 8 percent of cost. . . . The contract price established in redetermination was $208,998,000; yet the investigation disclosed that the company's actual costs were $176,075,500. Thus, instead of earning $15,481,300 as was originally contemplated, the company's experienced profit amounted to $32,940,500. This meant that it enjoyed a profit of 18.7 percent . . .

"The General Accounting Office also made a report to the Congress on a series of [8] contracts negotiated by the Department of the Navy with the Cleveland diesel engine division of General Motors . . . amounting to $118,700,000 . . . substantially completed by September 1, 1956 . . .

"Failure [by the Navy adequately to check estimates], according to the General Accounting Office, resulted in an overcharge by General Motors of $1,692,000 . . . Another weakness in these eight contracts, according to the GAO, was that General Motors charged the same rate of profit on major components that were subcontracted out as was charged for items manufactured in its own plants.

"On generators, for example, the single contribution of General Motors was receipt at their plant and mounting them on a frame with the diesel engine attached. This operation required the boring of holes, and bolting the generator and engine as a unit. For this service the company made a charge of $644,000 for general and administrative expenses, and a profit of $2,239,000.

"The General Accounting Office stated that it had been informed by Department of the Navy that General Motors historical rate of profit has been 11.11 percent on cost. It quoted the Navy as follows: 'For several years General Motors has applied this rate of profit, and all attempts to reduce this rate have been of no avail.' . . ."

—Kefauver Auto Monopoly Report.

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The Key to Disarmament May Lie in Detroit Rather Than Geneva

reached the point where the semanticist S. I. Hayakawa wrote in *Advertising Age* earlier this year that the car designers seem to be operating on the assumption that "the majority of the population is mentally ill." He reminded the motivation researchers that only the psychotic "act out their irrationalities" while as for the rest "the more expensive an object is, the more its purchase compels the recognition of reality." The decline in car sales seems to show the country is not *that* nutty, though *Advertising Age* in a preface to the article suggested dryly, "It is doubtful, hower, that Professor Hayakawa and the numerous others who have suddenly discovered how sane the American consumer is, can prove their thesis by the past history of the automobile market."

A Shocking Waste of Capital Goods

The horsepower race and the style changes are enormously expensive; the figures in this report on the cost of new tools and dies are shocking in a world hungry for capital goods. The Kefauver report, summing up conservative figures from industry sources, says the Big Three "are together spending well over $1 billion a year to convince buyers that last year's car models are obsolete." These costs do not include the mounting bill for advertising. In the past four years "the advertising cost of the Ford more than doubled; of Chevrolet nearly tripled; of Plymouth more than tripled." The situation has reached the stage where the volume of advertising is so huge that it may actually be reducing the potential volume of sales. The report figures that advertising costs now build in an extra $100 per average car and given the market's sensitivity to price, "a $100 increase on a $2,000 car would tend to reduce annual sales by several hundred thousand cars."

The Kefauver committee finds that if styling, advertising and tooling costs were reduced to pre-1955 levels, substantial price reductions could be made with no sacrifice of passenger car profits but with an increase in output. The report shows that with every 10 percent increase in price, sales tend to fall by 12 to 15 percent. It reveals that labor costs have been the excuse, not the real occasion, for the steady inflation of automobile prices. Hourly rated labor costs only take from $300 to $400 of a car with a factory sale value of $2,213. We are confronted with a drive to sell the public less quality at more cost. Between 1950 and 1957 advertising expenditures for space and time only (not counting radio and TV talent) rose from 61 millions of dollars to 195 millions, more than threefold. In 1957, GM was first, Ford third and Chrysler fourth among the 100 leading advertisers in measured mediums, including press, radio and TV. A major portion of the tripe on TV is financed by the auto companies. These vast advertising expenditures give them a hold on the mediums of communication which seriously inhibits free discussion of the economic problems they are creating.

What's Good for General Motors . . .

Senator Kefauver. Mr. Curtis, do you regard the growth of your company from about one-third in 1929 or 1930 to over one-half and the decline by the independents from one-fourth to less than 5 percent as a healthy trend in the economy and in the automobile industry?

Mr. [Harlow] Curtice [president of GM]. I regard that as a healthy situation as far as General Motors is concerned; yes.

Senator Kefauver. Not as far as General Motors is concerned, Mr. Curtice. I am talking about the country and the industry generally.

Mr. Curtice. I think it is a healthy situation for the country and the industry in general.

—Kefauver Auto Monopoly Report.

Like Unregulated Public Utilities

The problem of how to deal with them (the anti-trust laws are quite inadequate even if we had a Justice Department with the courage to tackle GM) is to be studied by Senator Kefauver in new hearings beginning early next year. We hope by devoting this issue to the auto report to help attract more attention to the coming inquiry. When major industries operate like public utilities, fixing their own prices but without regulation, we have given up whole sectors of the free market to private control. Until this problem is met, it will be impossible to create a rational economy, working at full employment without orders for new instruments of mass murder. In Detroit rather than Geneva lies the key to disarmament.

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